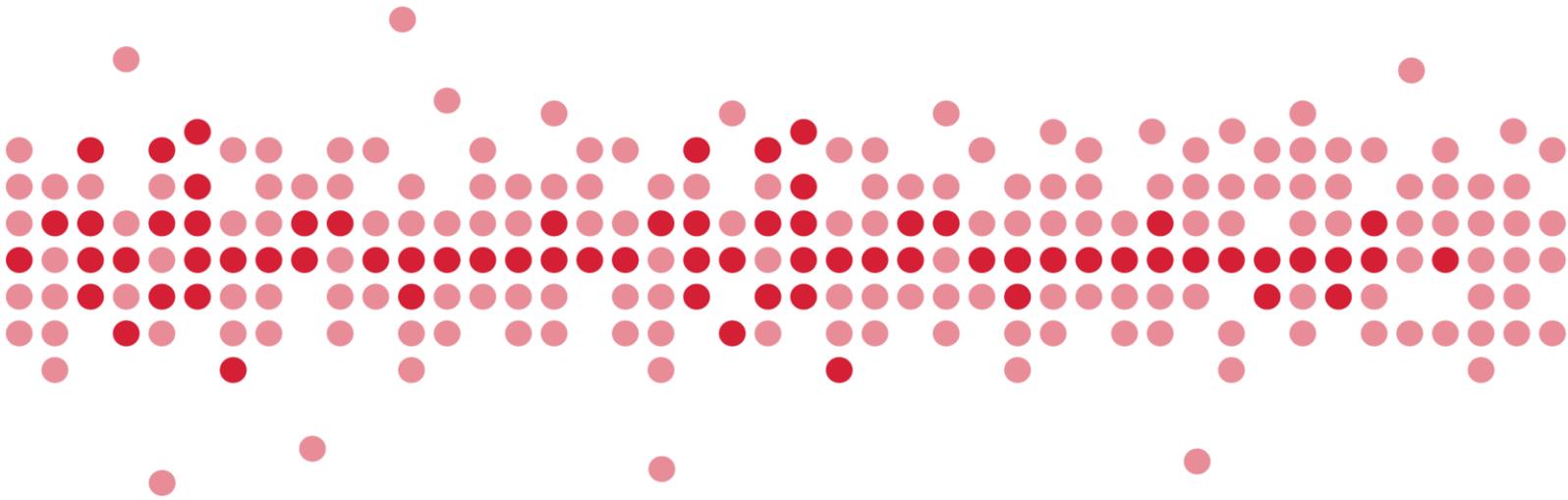


Sharing due diligence

Collaborating to enable more effective due diligence for funders and CSOs

A decorative graphic consisting of a horizontal band of red dots of varying sizes, arranged in a pattern that resembles a stylized wave or a textured line. The dots are scattered across the width of the page, with some appearing as single dots and others as small clusters.

In order to provide the most enabling environment for CSOs working in the Global South, funders can take actionable steps to reduce time and costs associated with due diligence.

This briefing paper offers insights from the Sharing Due Diligence workshop hosted by Stars Foundation on 28 September 2016 and attended by seven funder organisations, varying in size from Comic Relief to Synchronicity Earth¹. The report outlines the next phases for funder collaboration, focusing on:

- Existing due diligence processes among funders categorised by importance and how easy it would be to share
- Centrally sharing standardised due diligence while creating networks for qualitative information
- Ensuring effectiveness by addressing both CSO and funder needs as well as robust market research

Introduction

As funders seek to create a shared vision for how 'Southern' civil society can best be supported by international funders, it is important to develop a streamlined and collective approach to due diligence processes that enhances funding effectiveness for both funders and civil society organisations.

The key outcome of the Sharing Due Diligence workshop was that participating funders proposed to consider a means of sharing standardised due diligence information (e.g. CSOs governance documents), but they also need to consider ways to link funders working in the same geographic and programmatic areas in order to share 'softer' due diligence information (e.g. programmatic assessments of CSOs).

Key findings

Most due diligence requirements are considered shareable between funders; how this information could be shared varies according to its nature. Findings suggest standard compliance requirements could be streamlined and shared through a central database, while qualitative insights are best shared through trusted funder networks. Both initiatives require thorough market research on existing tools, sectoral buy-in and CSO validation.

1. Most due diligence requirements are considered shareable between funders

There is a clear appetite for cross-funder collaboration on due diligence processes, and furthermore participating funders classified 64% of typical information collected as shareable with others.² To inform strategy for sharing, it is important to have an understanding of what due diligence information is collected by different funders, their reasons for collecting it, and what qualifies items as shareable or confidential (see table on right). Some items cannot be shared due to compliance and legal restrictions, while others remain private in order to maintain trust.

- There is a difference between information obtained formally and informally. Background checks or research into CSOs may be carried out at an informal stage, prior to formal agreements. This may be considered essential but is not actually included in the formal compliance assessment
- A review of requirements shows a clear distinction between standard compliance documents necessary for funding and the qualitative information, describing the organisation and its expected outcomes (e.g. Theory of Change), which are essential for funders making decisions on who to fund
- Sensitivity to context must underlie all decisions. Particularly in the case of quantitative information, a 'one size fits all' model does not suit all situations, where different partnerships require different approaches at varying stages in their relationships
- Though consensus fluctuated between what was essential versus additional information for due diligence, distinction between shareable and non-shareable information was more clear-cut

Shareable

Factual information such as government documents and financial statements

Public information, like online presence and programme materials

Non-shareable

Confidential information, such as bank account details

Information that breaches trust (e.g. third party references and, dependent on relationship stage, organisational assessment)



Attendees of the due diligence workshop hosted by the Stars Foundation
(Rose Longhurst)

2. Simplify, be consistent and provide CSOs with clear guidance on due diligence processes

Full consideration of CSO partner needs will ensure that sharing due diligence is mutually beneficial. Beyond the workshop, participating funding organisations agreed on a ‘needs-analysis’ and ‘user-testing’ process with partners in the Global South. Through their current experience, however, funders identified certain barriers, fundamentally relating to inconsistencies in requirements and, subsequently, the excess of time dedicated to each application. To address these needs, funders suggest:

- A consistent format between grant applications. For example, a central database or joint funding application is likely to maximise return on resource investment, since one process of due diligence information submission and collection could be used for multiple sources of CSO funding, rather than applicants multiplying efforts in order to satisfy each funder organisation’s separate requirements
- Sensitivity to situation, language and culture must underlie any initiative. There must be a balance between consistency in criteria, guidelines on expectations and flexibility, in order to account for language and technological barriers while allowing CSOs to ‘tell their story’ in a way that is meaningful to them. Organisations should not be judged on language ability or writing style
- There is, furthermore, a need to favour simplification over technical jargon. To increase chances of success, guidance on content and format is due, clearly laying out the level of detail required (e.g. specific questions and word limits) as well as the expected focus of the application at each stage (e.g. project outcomes versus compliance requirements).

- With consideration for time and effort, requirements must be sequenced, constructive and scaled:
 - Regarding sequencing, the earliest stage should represent an initial filter for CSOs and programmes that meet eligibility criteria and have chances of success, before moving on to collect compliance documents and then subsequently, engaging in the full-fledged grant application process
 - As application stages sequentially increase in complexity, feedback should be provided on applicant status, highlighting why an application has or has not been successful
 - The length and complexity of requirements should be scaled appropriately according to the size and level of risk associated with the grant, whereby small, low-risk grants need not require a lengthy and onerous due diligence process



Funders compared their information requirements
(Rose Longhurst)

3. Standardise compliance information and create funder networks for 'softer' information sharing

Upon analysis of funder and CSO needs, workshop participants proposed two projects, noting that both must link with and build on information collected from existing platforms:

- A central database to collect and record essential and shareable compliance information for UK and non-UK organisations. Considerations for the working group include complying with data protection laws and third party contract restrictions, gaining appropriate CSO permissions, agreeing on common reporting standards and favouring a user-friendly sharing format
- Setting up smaller funder networks, with overlapping issues and geographic areas of interest, to share the qualitative, narrative and mission-related information that can inform the due diligence process less formally. Whilst quantitative compliance requirements are easier to centralise, it is the programme and its proposed outcomes that lie at the core of funding partnerships. Though some of the latter information was classed as 'additional', they lie at the core of both funders' and their partners' missions

4. Implement thorough market research on existing resources and feasibility

The most immediate next step is a three-part market analysis covering existing resource, project feasibility and CSO validation.

Existing Resource

- To avoid duplication of efforts and furthering the spirit of collaboration, a mapping of existing networks, platforms and their respective gaps in this space will follow. There are many similar or linked initiatives (e.g. IATI³, GrantNav⁴, PADOR⁵, BRIDGE⁶, etc.), and therefore next steps should involve collaborating and building on existing initiatives
- A basic tool for understanding who in the UK is working where, and on what will facilitate the informal sharing of assessment information, especially for those grassroots organisations that may not have websites, for example. Bond will test out a basic version of this to present funders with a map of who is working where. As a first step to inform this, funders are asked to show a more transparent and open approach by signposting their partners and areas of operation on their website
- A working group was proposed to guide and review these two pieces of work over the coming months, to develop Terms of Reference for this project and to lead on any next steps. Bond has called for a volunteer to be the focal point to guide this work

Project feasibility

- Based on gaps in due diligence sharing to be addressed, further market analysis must gauge who would buy into the database, including trustee agreement, and what constitutes critical mass
- Bringing the idea to action will require money and development; research must identify capacity to fund and create the database

CSO Validation

- As previously highlighted, this collaboration-focused process must not follow a top-down approach. It is fundamental to this project that CSOs be consulted in order to ensure value is added to all stakeholders. This will involve checking assumptions, gauging core needs and testing solutions with primary users

Conclusion and recommendations

The practical issues around funder due diligence information collection are often seen by CSO partners as an onerous and time consuming aspect of applying for international funding, while these are not the most critical and valued components of the process. Collaboration among funders on a shared due diligence process is a tangible way to assure funders of the probity of organisations while freeing up resource in order to maximise support to civil society in the Global South and to enable a focus on achieving mission-driven, positive impact.

Next steps for galvanising momentum in the short term include:

1. gathering feedback from colleagues, trustees and CSO partners on the desirability and feasibility of the proposed next steps
2. creating a working group to push forward the central database and funder network strategy

Success will mean a task force is created, CSOs share positive feedback, funders no longer request compliance documents and, instead, download information from a central database.

“The more we share, the more we have”

Author information

Stars Foundation hosted the Sharing Due Diligence workshop and commissioned **Marelisa Vega** to facilitate it and write this briefing. Stars Foundation invests in organisations and ideas that transform the lives of disadvantaged children and their communities globally. For more information, please visit www.starsfoundation.org.uk

Marelisa is a consultant with C&E Advisory and a Community Investment manager. She specialises in youth and community development with extensive experience in Latin America and the UK, stimulating multi-stakeholder groups through participatory processes that enable innovative approaches to complex social challenges. Get in touch via marelisa@candeadvisory.com

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More information and further reading

Stars Foundation has worked to share due diligence and assessment information on its awardees with other donors. For more information on this or the sharing due diligence workshop, please contact David Crook, Development Director at david@starsfoundation.org.uk

References

¹ Participating organisations included Comic Relief, Bond, Freedom Fund, International Tree Foundation, Stars Foundation, Synchronicity Earth, The David and Elaine Potter Foundation and the Waterloo Foundation.

² See Further Reading 9 (page 42) for tables and figures detailing the typical data collected by participating funders and their respective classification of due diligence requirement importance and potential for sharing.

³ <http://iatistandard.org>

⁴ www.threesixtygiving.org

⁵ http://ec.europa.eu/europeaid/etraining/pador/en/index.html_en

⁶ <http://bridge-registry.org>

Bond
Society Building
8 All Saints Street
London
N1 9RL, UK

+44 (0)20 7837 8344
bond.org.uk

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